

WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION
Community Nutrition Programs
Child and Adult Care Food Program

Guidance Memorandum 11: For Child and Adult Care Food Program Sponsoring Organizations of Day Care Centers and Independent Centers

Topic: Financial Management for Food Service Operations

Effective Date: October 1, 2006

The two methods for reimbursing sponsors of the Child and Adult Care Food Program (CACFP), are 1) "Meals times the rates" or 2) "Actual cost, if less than the rates." The Department of Public Instruction (DPI) has elected the method of meals times rates. Guidance Memorandum #2 contains specific information on how reimbursement is determined. Since the cost of meals served under the CACFP does not affect the reimbursement, sponsors are not required to report costs on their monthly claim forms. However, sponsors must:

"Maintain documentation of nonprofit food service to ensure that all Program reimbursement funds are used: (i) Solely for the conduct of the food service operation; or (ii) to improve such food service operations, principally for the benefit of the enrolled participants." (7CFR Part 226.15 (e)(14))

At a minimum, sponsors must have an accounting system that separates food service program costs and revenues from costs and revenues of other programs. This can be done by accounting codes (separate columns of a journal/ledger) or by a separate fund (food service has separate accounting records maintained for a completely separate account). Either an accrual system, which recognizes revenues and costs when incurred and uses payables and receivables or a modified accrual basis, which recognizes certain expenses and income on a cash basis while other costs and expenses are reported on an accrual basis, can be used. However a straight cash system, which recognizes revenues and costs when cash is actually received and expended, can also be used.

Standards for Allowable Costs

Allowable costs are bona fide obligations of the institution incurred for the actual expenses of operating the program which are liquidated timely. Certain costs may be allowable for a public institution but unallowable for a private nonprofit institution and vice versa. Furthermore, subsequent events may result in the reclassification of costs from allowable to unallowable. In all cases, allowable costs require some level of State agency approval. For a quick reference, Attachment 3, available on our website, is an index of cost items from FNS Instruction 796-2 (revision 3) and the required approval level.

Cost Principles. Institutions are responsible for accounting for costs correctly and for maintaining records and sufficient supporting documentation to demonstrate that costs claimed have been incurred, are allocable to the program, and comply with Guidance Memo 11, FNS Instruction 796-2, and applicable Program regulations and policies. Costs that are not properly documented and recorded pursuant to generally accepted accounting principles, Guidance Memo F, applicable OMB Circulars and the FNS Instruction 796-2 are unallowable.

Disclosure. The failure of an institution to identify related party transactions, less-than-arms-length transactions, ownership interests in equipment, supplies, vehicles and facilities or disclose any other information to the State agency that inhibits the State agency's ability to make an informed assessment of the allowability of a particular cost will result in the disallowance of the cost and may subject the institution, its principals, employees, consultants or others to the administrative and legal remedies available to the State agency and FNS. If the State agency determines that the institution's failure to disclose pertinent information was not deliberate, the State agency may permit the institution to either claim and retain CACFP reimbursement up to the amount that would have been allowed had a full and accurate disclosure been provided to the State agency; retain program funds earned as a result of claiming unallowable costs or use nonprofit food service account funds to pay for unallowable costs.

Special Considerations in determining Allowability. Certain situations require special consideration when determining whether the amounts and types of expenses are reasonable program costs. Special consideration is needed whenever a transaction lacks independence, for example transactions between related parties, because the integrity of the transaction could be compromised. In cases requiring special consideration, specific prior written approval is always required.

Generally Allowable Costs. Generally allowable costs are the customary costs that occur in the **routine operation** of the CACFP and which are allowed by 796-2, OMB Circulars, Federal regulations, and FNS and State agency policies, guidance and instructions. While generally allowable, an institution must disclose these costs in the administrative budget submitted to the State agency (Attachment E of DPI form PI-1459) and these costs must still be approved in advance by the State agency through the annual management plan and budget submission process. Approval of the budget results in the approval of the budget line items but is not a guarantee of allowability of any particular cost or funding of the budget line item.

Prior Approval. The phrase “prior approval” is used in this guidance and Attachment 3, to identify costs that must be specifically identified by item and amount during the budget submission process to permit the State agency to fulfill the regulatory requirements of 226.6(f), 226.7(b), (g), (m) and 226.10, as applicable; and to permit the institution to fulfill the regulatory requirements of 226.6(f) and Part 226, Subpart D and E, as applicable. Including the item as part of a larger entry on a line item in the budget without identifying the specific cost item and amount is not sufficient and will not meet the requirement for sufficient disclosure. When these cost items and amounts are properly disclosed, approval of the budget meets the requirement for prior approval unless the State agency specifically disallows the cost in writing. Costs requiring prior approval include costs identified in the OMB Circulars as generally allowable costs, but due to limitations imposed by CACFP statutory, regulatory and policy considerations may not be allowable program costs.

Specific Prior Written Approval. The phrase “specific prior written approval” is used in this guidance and Attachment 3, to identify costs that are not allowed unless the State agency has provided the institution with specific written approval of both the cost and the amount of the cost that can be charged to the program before the cost is incurred. Specific prior written approval by the State agency is required because these costs are not customarily incurred in the routine operation of the CACFP but can sometimes be necessary and reasonable for proper and effective Program operations. Approval of a budget line item does not constitute adequate specific prior written approval for these costs. The institution must specifically identify and request approval of these costs during the annual budget approval process or submit a separate request to the State agency. Whether submitted during the budget approval process or separately, the State agency must approve or deny these specific requests in writing. Costs requiring specific prior written approval may include costs identified in the OMB Circulars as allowable costs, but due to limitations imposed by CACFP statutory, regulatory and policy considerations may not be allowable program costs.

Unallowable Costs. Not all expenses will be allowable costs. Unallowable costs cannot be charged to the program or claimed for reimbursement. The institution’s accounting records must segregate, account for and identify all unallowable costs. Further, unallowable costs must be included in the development of any cost allocation plan and unallowable costs must be attributed a fair and equitable share of the institution’s indirect costs. Institutions must fund unallowable costs from non-program sources.

All cost items, illustrated in Attachment 3 as requiring prior approval or specific prior written approval by DPI, cannot be paid with CACFP reimbursement, unless that approval has been given. All agencies (for-profit, non-profit and public) participating in the CACFP are required to monitor budget vs. actual costs on a monthly basis, to ensure the proper approval has been obtained.

Typical Food Program Costs

Food Service Accounting	Salaries and Benefits of Food Service Personnel and Administrative Personnel with Food Service Responsibilities
Audit Services (prorated food service portion)	
Office Supplies and Materials	Space Rental and Utilities (for administration and food service)
Bonding of Food Service Employees	Indirect Costs
Telephone and Other Communications	Checking Account and Financial Service Fees
Training Costs	Equipment Purchases
Food Costs	Purchased Services
Supplies and Materials (cleaning and serving items)	

Allocation of Food Service Costs

In most cases, all of the sponsor's food service program is exclusively a CACFP operation. However, allocating costs between CACFP and other food service is necessary if part of the food service operation is operated **for profit**, or if the food service does not operate primarily for the benefit of enrolled participants. The definition of "primarily for the benefit" does not necessarily require that over half the meals served are for CACFP participants. Documentation for determining an agency's allocation plan must be retained for three years plus the current year.

Accounting Procedures and Supporting Documentation

An agency is required to have a strong accounting process in place. Expenditures directly funded with CACFP reimbursement should be easily identifiable. Methods that may be used to account for food program expenditures include separate account codes or bank accounts. Regardless of the method used, procedures must be in place to track and account for all CACFP expenditures and reimbursement.

Documentation provides physical proof of the expenditure or receipt of income. Documentation of food costs includes grocery tapes or receipts, invoices, refunds and discounts, receiving reports, contract for meals, inventory records, and canceled checks. Documentation of nonfood costs includes the same items as well as proration of cost information, mileage records, and employee travel vouchers. Food and nonfood expenditures that are purchased on the same invoice/receipt are required to be tracked separately and should not be recorded as one food expenditure. Labor and salary costs are documented by daily time sheets, payroll vouchers or other payroll records.

A General Ledger template that can be used to track food service revenue and expenditures can be found on our website at <http://dpi.wi.gov/fns/centermemos.html>. This ledger can be used, along with actual support documentation (receipts, invoices, payroll records, cancelled checks, bank deposits, etc.) to support the actual figures reported on the required Nonprofit Food Service Financial Report(s).

Nonprofit Food Service Financial Report

All agencies that participate in the Child and Adult Care Food Program (CACFP), whether for-profit, non-profit or public, are required to operate a Non-Profit Food Service Program for their enrolled participants. The attached Nonprofit Food Service Financial Report, respectively, PI-1463 for independent agencies (pink), PI-1463-A for sponsoring organizations of affiliated centers (yellow), or PI-1463-C for sponsoring organizations of unaffiliated centers (green), is required to be completed and submitted by **ALL** agencies participating in the CACFP. The report should detail all actual costs incurred as a result of administering the food program. In addition, the report should detail the revenue that was used to fund the costs incurred in the food program. Food program revenue includes CACFP reimbursement, child and adult meal payments, meal sales to other organizations, donations, loans, and interest earned on these funds. Other income that may be used to supplement the cost of your food service program may be tuition, Head-Start funding, W-2 funding, donations, etc. Food program costs must be actual, allowable, necessary and reasonable, related specifically to food service and offset by any applicable credits, discounts, rebates, allowances, recoveries or indemnities on losses, sales of scrap, and erroneous charges. Please refer to the *Instructions for completing the Nonprofit Food Service Financial Report* attached to the respective report.

Sponsoring organizations of affiliated centers (agencies with more than one site participating on the food program that is the same legal entity) must submit the Nonprofit Food Service Financial Report (PI-1463-A, rev. 9/03) and **sponsoring organizations of unaffiliated centers** (agencies with more than one site participating on the food program that is not the same legal entity) must submit the Nonprofit Food Service Financial Report (PI-1463-C, rev. 8/05) on a **quarterly** basis. This financial report must document **actual** CACFP income as it is earned (accrual method), not received, and **actual** expenditures as they are incurred not paid (an accrual basis). The report should be submitted to: **Cari Ann Muggenburg, Department of Public Instruction, PO Box 7841, Madison, WI 53707-7841** or by e-mail at cari.muggenburg@dpi.wi.gov. The deadlines for submitting these financial reports are as follows:

<u>Time Reporting Period</u>	<u>Due Date of PI-1463-A and PI-1463-C to SA</u>
October 1 – December 31	March 1 st
January 1 -- March 31	June 1 st
April 1 -- June 30	September 1 st
July 1 – September 30	December 1 st

Independent centers are required to complete the attached Nonprofit Food Service Financial Report (PI-1463, rev. 8/06) and submit on an **annual** basis. This financial report must document all income (including CACFP reimbursement) that has been incurred and costs that have been paid in the food program during the twelve-month

program period. **This period MUST correspond to the federal fiscal year (October 1 - September 30).** This report is due to the Department of Public Instruction on **November 1**.

An electronic copy of the forms mentioned above can be found at www.dpi.wi.gov/fns/centermemos (for child care) and www.dpi.wi.gov/fns/adultmemos (for adult care). Any questions please contact Cari Ann Muggenburg.

Amended Budgets (Sponsoring Organizations ONLY)

The DPI Budget completed at the beginning of the program year should be a reflection of the projected food program expenditures that your agency anticipates incurring throughout the program year. Situations may arise that will require you to amend your budget. Budget amendments will be accepted at anytime prior to September 1st, utilizing the following procedure. Any budget amendment after September 1st, will be accepted for emergency situations only.

A request for an amended budget should be in writing (except in the case of an emergency, then verbal communication will be accepted), and sent via e-mail, fax, or regular mail to the attention of the DPI Auditor. DPI will respond within 10 days of receiving a request for approval to the amended budget. The request must contain: (1) the specific cost item(s) that is being amended, (2) the projected dollar amount that is being changed, and (3) the source of funding that will cover the costs (i.e., CACFP, Tuition, and/or HeadStart). If the cost item is to be funded directly with CACFP funds, any additional supporting documentation must also be submitted to DPI prior to approval.

No budget amendment for cost items funded directly with CACFP funds that require Prior Approval or Specific Prior Written Approval will be accepted **after** a cost has been incurred, as illustrated in Attachment 3. The budget does not need to be amended to reflect any change/addition of a Generally Allowable Cost, unless the addition will increase the overall budget amount. In this situation, simply notify the DPI auditor that the agency's overall budget amount will be increased, the reason for the increase (e.g. increase in the number of children served, additional site added to program, etc.), and certify the funding that will be used to account for this increase in program costs.

If you have any questions regarding your budget status, please contact Cari Ann Muggenburg by e-mail at cari.muggenburg@dpi.wi.gov or by phone at 608-264-9551.

Please note: No more than 15% of your CACFP meal reimbursement may be used to fund any type of administrative cost. The maximum amount of administrative cost that can be expended is reported on your annual budget and will be monitored on your quarterly Nonprofit Food Service Financial Report. Any deviation from this policy requires a waiver from USDA.

Record Retention

The accounting records and the documentation for food service revenues and costs must be retained for three years plus the current year. For instance, the 2009-2010 food service records must be on file until at least September 30, 2014, unless the records are part of an OIG, Federal or State Agency audit.

Audit Requirements

All nonprofit agencies that participate in the Child and Adult Care Food Program that expend more than \$500,000 in federal funds are required to have an annual A-133 Single Audit.

If the CACFP is a major program for an agency a copy of the audit report must be submitted to the Wisconsin Department of Public Instruction (DPI) within nine months from the close of your agency's fiscal year. All audit reports must be kept on file by the agency for three years plus the current year. A copy of the A-133 Compliance Supplement for the Child and Adult Care Food Program can be found on the OMB website at www.whitehouse.gov/omb/grants/grants_circulars.html.

Interest Earning Accounts

All sponsoring organizations and independent centers are allowed to use interest-bearing or interest-earning accounts for their CACFP reimbursement and advance funds.

In accordance with FNS Instruction 796-2 (Rev. 3), issued June 2001, restrictions have been placed on the amount of interest that can be earned on monthly advances. For **non-profit organizations**, any interest earned on monthly advances in a program fiscal year (October 1 – September 30) in excess of \$250 must be resubmitted to: US Department of Health and Human Services, Payment Management System, PO Box 6021, Rockville, Maryland

20852. For **public organizations**, any interest earned on monthly advances in a program fiscal year in excess of \$100 must be resubmitted to: Department of Public Instruction, attention Debra Anklaam, PO Box 7841, Madison, WI 53707-7841. For **proprietary/for-profit** organizations, **ANY** interest earned on monthly advances in a program fiscal year must be resubmitted to: Department of Public Instruction, attention Debra Anklaam, PO Box 7841, Madison, WI 53707-7841.

Fiscal Action Procedures

Fiscal action can be taken on any agency that fails to comply with the regulatory requirements for participation in the Child and Adult Care Food Program. An overclaim can be assessed on an agency as a result of a program review, financial audit (including but not limited to Single Audit, LAB, or desk audit), or a federal audit (i.e. OIG audit).

Beginning October 1, 2004, the Child Nutrition and WIC Reauthorization Act of 2004 (Public Law 108-265) allows a disregard threshold for overpayments to child or adult care institutions participating in the Child and Adult Care Food Program (CACFP). A disregard threshold in the amount of \$600.00 will be placed on each overclaim notice assessed as a result of program reviews or audits. **However, no overpayment is to be disregarded where there is substantial evidence of violations of criminal law or civil fraud statutes.**

If your agency incurs a fiscal overclaim greater than \$600.00, the entire debt must be repaid in full within 30 days from the date of the *Overclaim Notice*. To assist with a timely payment, **the overclaim amount will be automatically deducted from the next future claim(s) until paid in full.** If your agency does not wish to have this amount deducted from your future claim(s) you must submit a check for the full amount of the overclaim within 30 days from the date of the *Overclaim Notice*. The check should be made payable to the *Department of Public Instruction* and mailed to the following address: Department of Public Instruction, Attention: Deb Anklaam, PO Box 7841, Madison, WI, 53707-7841.

If the overclaim amount is not paid in full within 30 days, interest at the rate of 1.0% per year will be charged on any overclaim balance in excess of \$5.00, beginning with the date of the *Overclaim Notice* letter. If you appeal the payment demand, we will stop all collection activities, however, interest will continue to accrue. If the hearing officer upholds our demand for payment, you will owe the total balance of the overclaim and the interest that has accrued. If the hearing officer does not uphold our decision or reduces the amount of our repayment demand, any interest that has accrued on the overclaim amount, no longer due, will be waived. Collection activity will resume after the hearing officer issues a decision on your appeal.

If your next future claim does not repay the full amount of the overclaim debt owed within 30 days from the date of the *Overclaim Notice* letter then interest will be due on the unpaid balance.

If your agency disagrees with any of the findings that resulted in the fiscal overclaim, your agency has the right, by Federal Regulation, to obtain a fair and impartial administrative appeal hearing (detailed hearing procedures are attached). The request for an appeal hearing must be filed in writing within 15 days from the date of receipt of your Overclaim Notice and follow the appeal procedures exactly. All requests must be sent to the attention of *Cari Ann Muggenburg* via fax at (608) 267-0363 or regular mail to the following address:

Department of Public Instruction
Attn: Cari Ann Muggenburg
Community Nutrition Team
PO Box 7841
Madison, WI 53707-7841

Your agency also has the right to file an appeal on any fiscal underclaim that is issued to your agency.